



State of New Jersey

DEPARTMENT OF THE TREASURY
DIVISION OF PURCHASE AND PROPERTY
Purchase Bureau
P. O. Box 230
TRENTON, NEW JERSEY 08625-0230

JAMES E. MCGREEVEY
Governor

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LOCATION:
33 W. STATE STREET
TRENTON, NJ

January 28, 2003

I. INTRODUCTION

The Division of Purchase and Property is issuing this Request For Information (RFI) on behalf of the Division of Taxation (hereinafter sometimes referred to as "Division"). The purpose of the RFI is to identify an operational database management system capable of responding to the Division of Taxation's current business needs.

All information submitted by respondents to this RFI shall be considered public information. All contacts with State representatives shall be through a single contact within the Division of Purchase and Property, Marianne Bixler. Any questions raised by potential respondents to this RFI must be in writing and directed to the attention of Marianne Bixler. Questions must be faxed to Ms. Bixler at (609) 292-5170. Questions must be received no later than February 17, 2003. Responses will be in writing and will be provided to all potential respondents.

Submissions in response to this RFI must be received in the offices of the Division of Purchase and Property at the following address:

Purchase Bureau
33 W. State St.
P.O. Box 230
Trenton, NJ, 08625
Attention: Marianne Bixler

Responses must be received no later than 2 p.m. on February 28, 2003. Each submission must include five (5) exact copies.

II. BACKGROUND INFORMATION

The Division of Taxation is responsible for the administration of the State's tax laws uniformly, equitably and efficiently to maximize State revenues. In its efforts to achieve its mission, the Division relies primarily upon voluntary compliance on the part of taxpayers. However, the Division also acts to affect its mission through compliance collections, that is, revenue received as a result of a Division of Taxation compliance or enforcement action, program or intervention. In Fiscal Year 2001, the Division collected \$17,288,212,423. Of that amount \$643,232,518 was generated

through compliance collections. Compliance collections represent the fifth largest source of State revenue after the Gross Income Tax, the Sales and Use Tax, the Corporation Business Tax and the State Lottery.

The Audit Activity in the Division of Taxation is responsible for ensuring tax compliance and the collection of outstanding tax liabilities by examining information provided on tax returns and by auditing taxpayer records. Thus, Audit Activity constitutes an integral component of compliance collections. Field auditors examine taxpayer records and conduct audits of all taxes administered by the Division.

The Sales and Use Tax Act (hereinafter sometimes referred to as "Act"), N.J.S.A. 54: 32B-1 et seq. imposes a tax of 6% on the receipts from the retail sale, rental, or use of tangible personal property, on the receipts from the retail sale of services, including, producing, fabricating, processing, installing, maintaining, repairing, storing and servicing tangible personal property; maintaining, servicing or repairing real property; certain direct mail services; sales of restaurant meals; hotel and motel room rentals; certain admission charges; and telecommunication services.

Section 8 of the Act sets forth various exemptions to the imposition of the tax. Major exemptions include: sales of newspapers and magazines; casual sales except motor vehicles and registered boats; clothing, except furs; farm supplies and equipment; flags of New Jersey and the United States; unprepared food for off premises consumption; food sold in school cafeterias; prescription and nonprescription drugs and other medical aids; motor fuels; periodicals and textbooks; professional and personal services; real estate sales; tangible personal property used in research and development; transportation of persons or property; production machinery and equipment.

III. STATEMENT OF BUSINESS PROBLEM AND NEEDS

In its experience conducting sales tax audits of mid to large volume retail businesses, the Division of Taxation has concluded that such retailers generally under collect sales tax. The most significant explanation for the under collection is a misinterpretation of the applicability of the Sales and Use Tax Act to the extremely large variety of products sold. Retailers experience difficulties in properly taxing new products.

Sales tax audits of mid to large volume retailers are also particularly challenging to Division auditors. The extensive number of sales receipts included in such audits prohibits the review of each transaction for an audit determination as to whether sales tax was accurately applied. Due to the volume of sales receipts, auditors employ a sampling methodology that generally consists of a number of receipts between ½ and 1% of the total receipts within the scope of the audit. The results of the sample are extrapolated to provide the basis for the audit conclusions and an assessment, as may be appropriate, of sales tax liability. This methodology, while responsive to the sheer volume of sales receipts presented, suffers the shortcoming common to sampling techniques, namely, a possible loss in accuracy. Accordingly, a sampling methodology may not fully capture all transactions correctly or incorrectly keyed for sales tax purposes by a mid to high volume retail business. As a result, a sales tax assessment may not accurately reflect outstanding sales tax liability.

The Division wishes to improve its sales tax audit methodology by replacing the sampling method with one that allows the review of 100% of the sales receipts within the scope of an audit. The Division is seeking an operational database management system of the Universal Product Codes (UPC's) of retail products that includes, with respect to each UPC, its taxability or exemption under the New Jersey Sales and Use Tax Act.

IV. SUBMISSIONS IN RESPONSE TO THIS REQUEST FOR INFORMATION

The Division of Taxation requests that responding firms provide the following information in sufficient detail to allow the Division to make a determination as to the availability of an operational database management system that meets the needs identified above.

- A. Describe generally how the Division of Taxation can use the proposed operational database management system in sales tax audits.
- B. Describe the capabilities of the proposed operational database management system to automatically review whether retail businesses are accurately ascribing New Jersey sales tax treatment to retail products.

- C. Describe the results to the Division and to the retail businesses utilizing the proposed operational database management system in sales tax audits.
- D. Describe the number of items in the proposed operational database management system and how frequently it is modified to add and/or delete products.
- E. State whether the proposed operational database management system is currently operational in any public sector or private sector environment, and identify all customer locations where the proposed database might be demonstrated to State personnel.
- F. Describe the State resources necessary to implement the proposed operational database management system to respond to the Division's needs.
- G. Describe the contractual terms of a licensing agreement between the State and the responding firm relating to the Division's use of the operational database management system, including the billing methodology.

